

Recent 529 Plan Changes

The IRS announced its intent to issue regulations on three recent tax law changes affecting popular 529 education savings plans—tuition refunds, K-12 education and rollovers to an ABLÉ.

Tuition refunds: The PATH Act change added a special rule for a beneficiary of a 529 plan, usually a student, who receives a refund of tuition or other qualified education expenses. This can occur when a student drops a class mid-semester. If the beneficiary recontributes the refund to any of his or her 529 plans within 60 days, the refund is tax-free.

The Treasury Department and the IRS intend to issue future regulations simplifying the tax treatment of these transactions. Re-contributions would not count against the plan's contribution limit.

K-12 education: One of the TCJA changes allows distributions from 529 plans to be used to pay up to a total of \$10,000 of tuition per beneficiary (regardless of the number of contributing plans) each year at an elementary or secondary (K-12) public, private or religious school of the beneficiary's choosing.

Rollovers to an ABLÉ account: The second TCJA change allows funds to be rolled over from a designated beneficiary's 529 plan to an ABLÉ account for the same beneficiary or a family member. ABLÉ accounts are tax-favored accounts for certain people who become disabled before age 26, designed to enable these people and their families to save and pay for disability-related expenses.

The regulations would provide that rollovers from 529 plans, together with any contributions made to the designated beneficiary's ABLÉ account (other than certain permitted contributions of the designated beneficiary's compensation), cannot exceed the annual ABLÉ contribution limit – \$15,000 for 2018.